

Introduction

hospTRENDS reviews the current plus previous 12 quarters, which equals three years plus one quarter. The data upon which hospTRENDS is based is provided by the hospitals in Washington through quarterly submission of financial and utilization information. At time of publication of this edition, the following hospitals had not submitted data for one or more quarters of the period: Dayton General Hospital, Ferry County Memorial Hospital, Prosser Memorial Hospital and Quincy Valley Medical Center. Our web site information and a short description of the data we have available are at the end of the report.

Quarterly Quick Review

Below is a summary table of the statewide trends. The total number of discharges by period increased 2.26%. Patient days have declined 0.81% in this period, nearly twice the 0.45% decline in the prior period. The previous high in recent years was 4.0% for the period ending September 30, 2008. Average length of stay decreased to 4.21, down slightly from last period's 4.36 days.

Deductions from revenue grew at a 16.35% rate, breaking a cycle where the growth in deductions had been slightly higher each period through 2008 and 2009. The operating revenue grew faster (8.04%) than operating expenses (6.49%) which translates into an operating margin increase of 45.59% from the previous period. Operating expense grew by 6.49%, which is below the annual percentage change range of the past 10 years that includes a low of 7.5% and a high of 10.9%. Charity care grew at 29.42% compared to recent growth of up to 81.2%. Bad debt continued recent trends with an increase of 16.39%. Charity care and bad debt have both seen volatility in their rates of change in recent periods.

Statewide Summary of Quarterly Reports

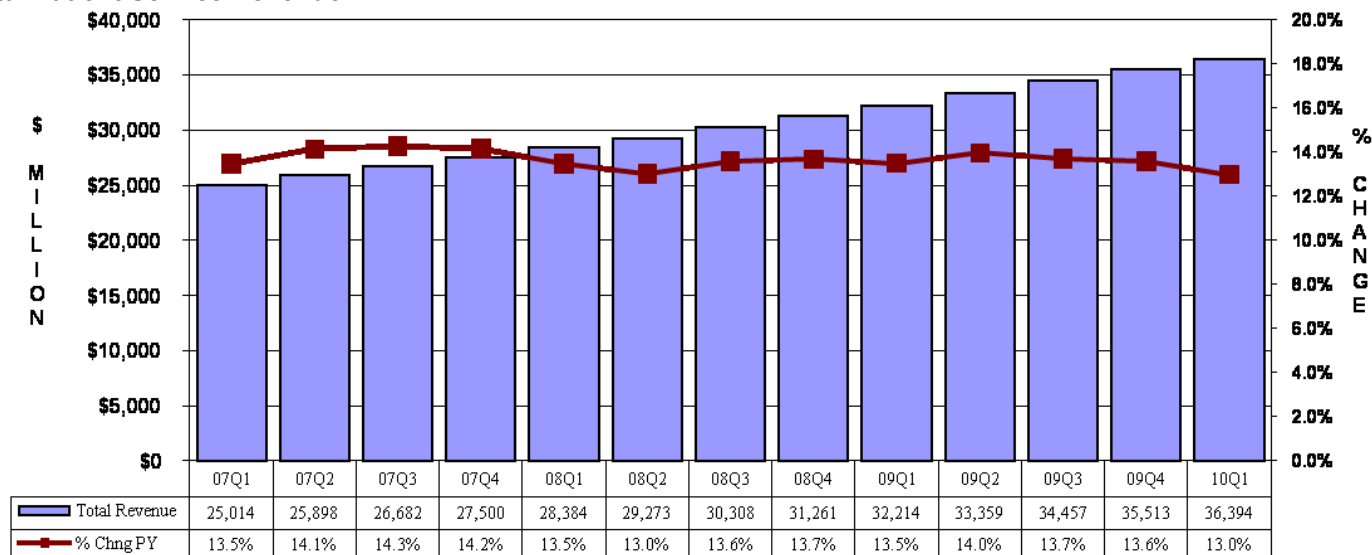
	4 Quarter Period Ending		Percent	2010 Percent
	03/31/2009	03/31/2010	Difference	Of Total Rev
Discharges	583,614	596,788	2.26%	
Patient Days	2,530,446	2,509,879	-0.81%	
Average Length of Stay	4.34	4.21	-3.00%	
+ Total Revenue	32,213,881,866	36,393,970,184	12.98%	
- Deductions from Revenue	18,370,592,693	21,374,097,563	16.35%	58.7%
= Net Revenue	13,843,289,173	15,019,872,621	8.50%	41.3%
+ Other Operating Revenue	812,897,753	814,601,682	0.21%	2.2%
= Operating Revenue	14,656,186,926	15,834,474,303	8.04%	43.5%
- Operating Expenses	14,075,119,576	14,988,499,749	6.49%	41.2%
= Operating Margin	581,067,350	845,974,554	45.59%	2.3%
+ Other Income/Tax Revenue	(228,534,851)	392,664,769	271.82%	1.1%
= Total Margin	352,532,499	1,238,639,323	251.35%	3.4%
Charity Care	717,810,002	928,963,225	29.42%	2.6%
Bad Debt	686,485,672	798,987,213	16.39%	2.2%
Operating Margin	3.94	5.31	34.58%	
Total Margin	2.42	7.60	213.83%	

FINANCIAL INDICATORS

Total Patient Service Revenue

Total billed charges for patient services, which are identified as total patient service revenue or total revenue, increased by \$4.2 billion from \$32.2 billion to \$36.4 billion for the period ending March 31, 2010. The annual increase rate of 13.0% is similar to recent rates. The annual dollar increase had been between \$2.05 and \$2.55 billion each four-quarter year for sixteen periods, but has now advanced to over \$3 billion in each of the last eleven periods and over \$4 billion in the most recent three periods. The billed charges are based on common billing charge sheets that the hospital uses for all patients regardless of the payer and regardless of any contractual adjustments.

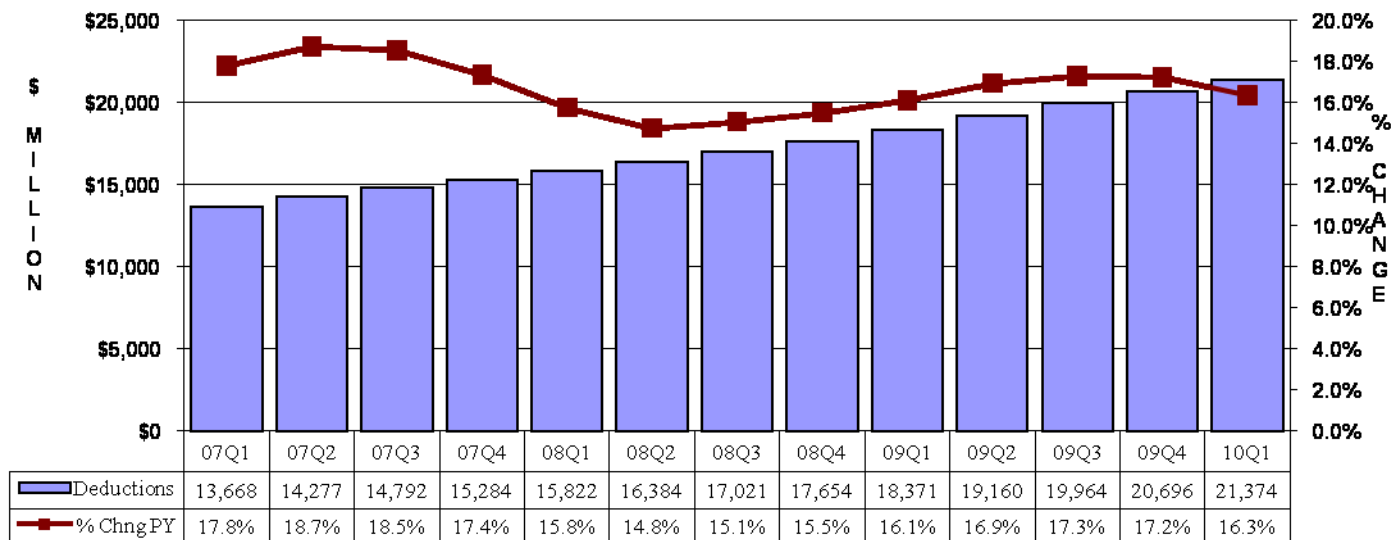
Total Patient Service Revenue



Total Deductions from Revenue

For the twelve months ended March 31, 2010 total deductions from revenue reached \$21.4 billion. This was an increase of \$3.0 billion, or 16.35% over the previous period ending March 31, 2009. Total deductions from revenue have been more than 50% of total patient service revenue since the four quarters ending September 2004. Total deductions include contractual adjustments and charity care. Deductions are the difference between what the hospital billed and what they were paid.

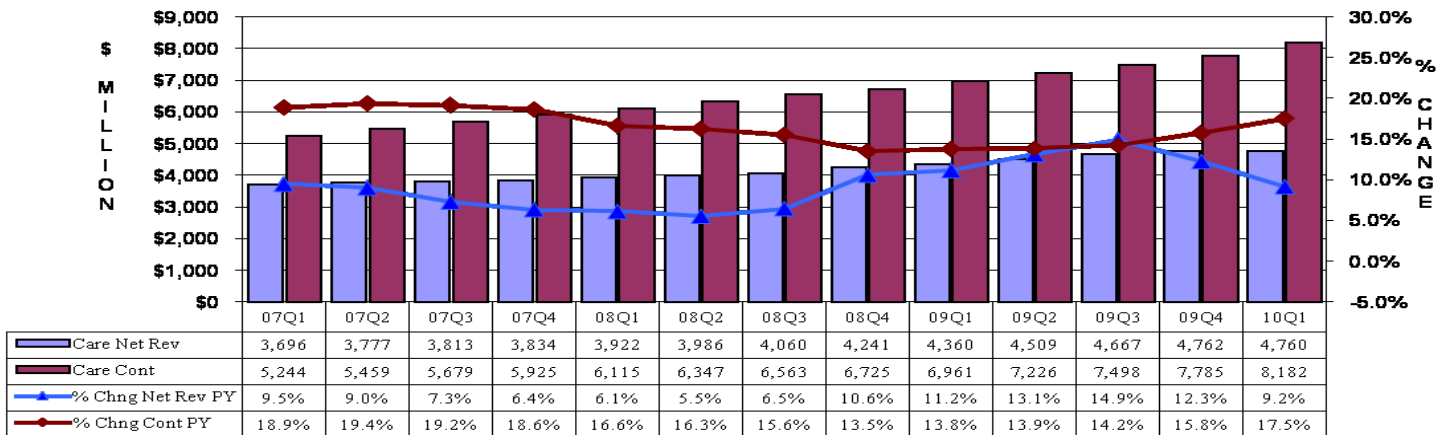
Total Deductions from Revenue



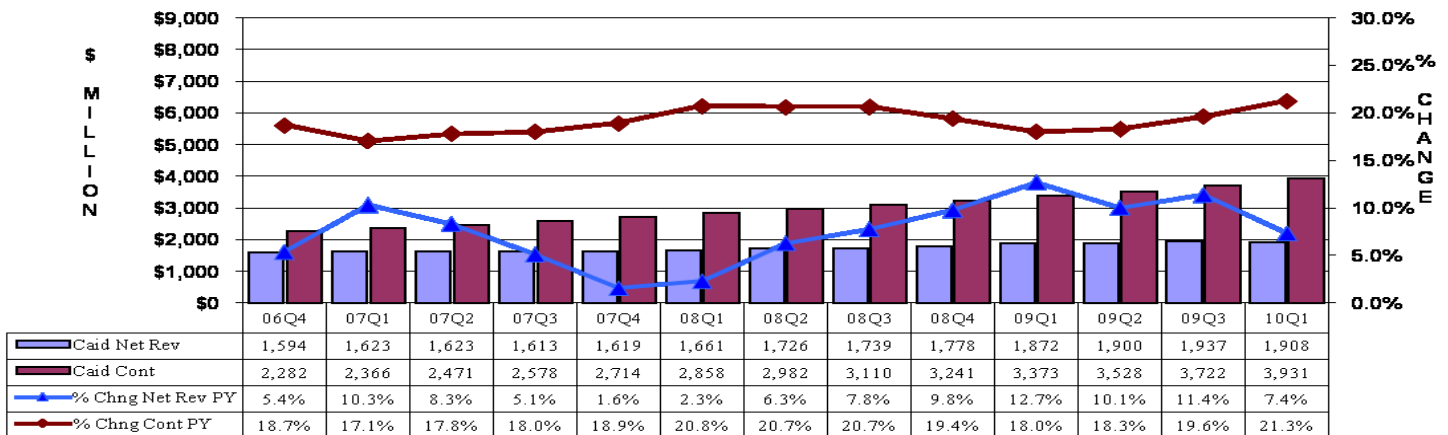
Contractual Adjustments

Contractual deductions, the most significant part of deductions from revenue, vary by payer. Below are three graphs, one for each payer, Medicare, Medicaid and other. The three graphs are set up so you can see the relative size of the contractual adjustments and the net revenue by payer. The chart shows net revenue and contractuals and the percentage change for each over the prior year period. Other payer has the largest portion of net revenue, \$9.3 billion and deductions of \$8.33 billion. Medicare's net revenue of \$4.76 billion is much less than other however the contractuals are similar to other at \$8.18 billion. Medicaid net revenue was \$1.91 billion and deductions were \$3.93 billion. Based on the hospital's rate sheet, or billed revenue, hospitals bill Medicare an average of \$2.72 for each dollar they receive, other payers an average of \$1.90 and Medicaid an average of \$3.06.

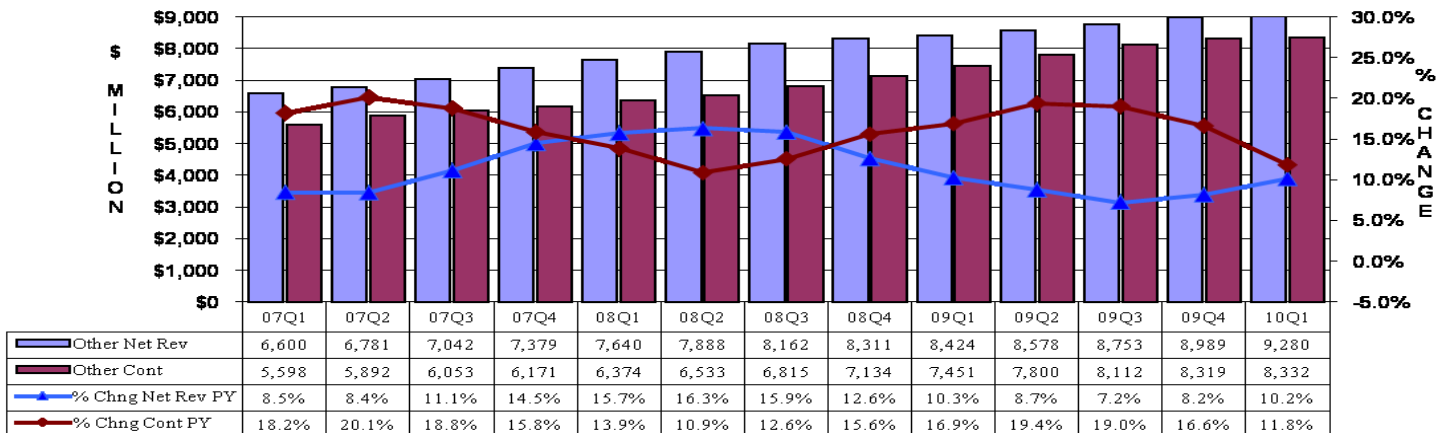
Medicare Contractuals



Medicaid Contractuals



Other Contractuals



Uncompensated Care

Uncompensated care is composed of charity care and bad debt expense. While charity care is part of the deductions from revenue category and bad debt is part of the operating expenses, they are similar. Each represents billed charges for hospital services that are not paid. Charity care represents charges that are not paid by patients who are **unable** to pay, while bad debt expense arises from charges that are not paid by patients who are **unwilling** to pay. During this four-quarter cycle, charity care has grown by 29.42% and bad debt has increased by 16.39%, for a total increase in uncompensated care of 23.05%.

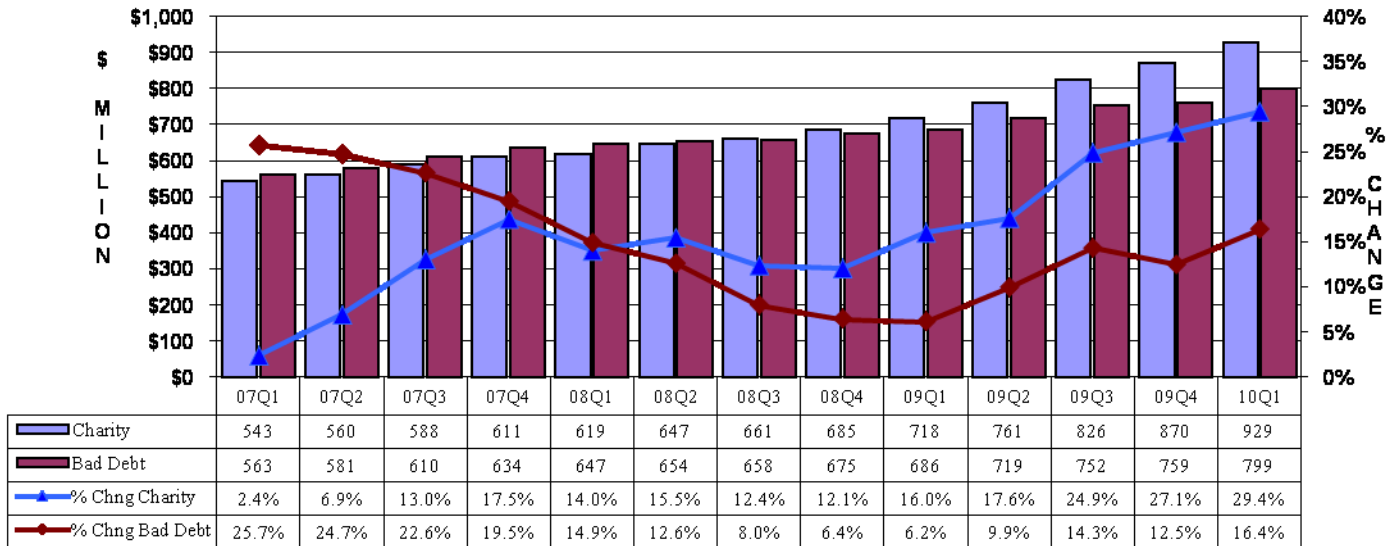
Charity

While charity care is only 2.55% of billed revenue, the dollar amount and percentage have been growing very rapidly during the past five years. Recently, during the March 31, 2009 to March 31, 2010 period, charity care has increased 29.42% or \$211 million.

Bad Debt

The bad debt dollar amount has grown from \$686 million for the four quarters ending March 31, 2009 to \$799 million for the period ending March 31, 2010, which is a 16.39% increase. Bad debt had been slowing its rate of increase since the four quarters ending December 31, 2005 until the second and third quarters of 2009. It has since begun to increase more rapidly.

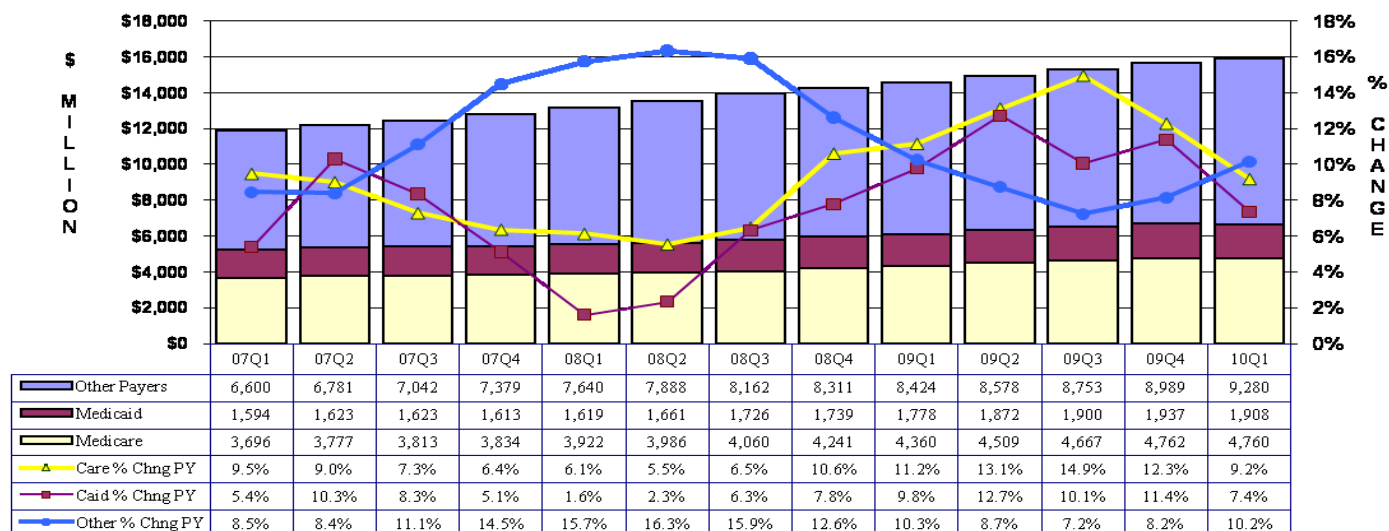
Charity and Bad Debt



Net Patient Services Revenue

During the twelve-month period ended March 31, 2010, net patient service revenue grew by 8.50%, or \$1.18 billion, from \$13.8 billion to \$15.0 billion. Other payer continues its strong percentage and dollar growth (10.17%, \$856 million). The percentage change by payer from the previous year period shows that Medicare had an 9.19% increase and Other had an 10.17% increase over the twelve month period ending March 31, 2009. Medicaid revenue increased 16.35% while Medicaid deductions increased by 21.28%, increasing the net patient service revenue for Medicaid by only 7.35% from the previous period.

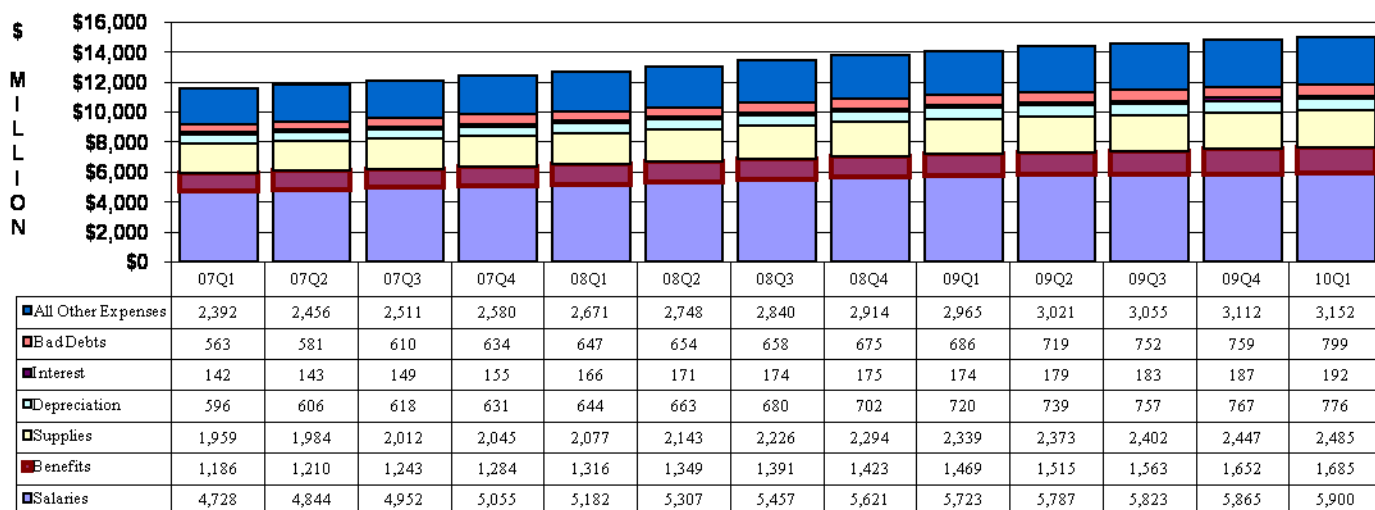
Net Patient Service Revenue by Payer



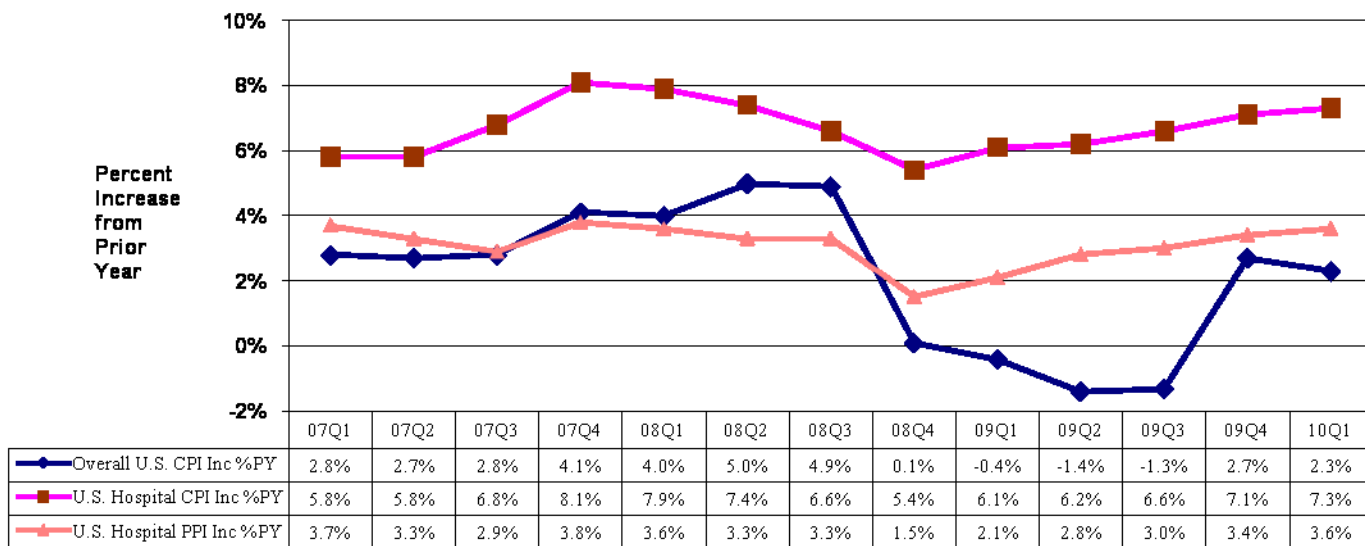
Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. Growing by 6.49%, or \$913 million, operating expenses reached \$15.0 billion in the twelve-month period ended March 31, 2010. Adjusted discharges increased 4.26% during the same period. Operating expenses per adjusted discharge increased by 2.14%. The 2.14% increase was slightly lower than the 2.3% annual decrease in the overall United States consumer price index and far lower than the 7.3% annual increase in the United States hospital services component of the index for the same period of March 2009 to March 2010. The category with the largest dollar and percentage increase in operating expenses was benefits at 4.6% or \$184 million for a total of \$1,652 million. Interest expense had the smallest dollar increases during the same period, while supplies had the smallest percentage increase.

Operating Expense



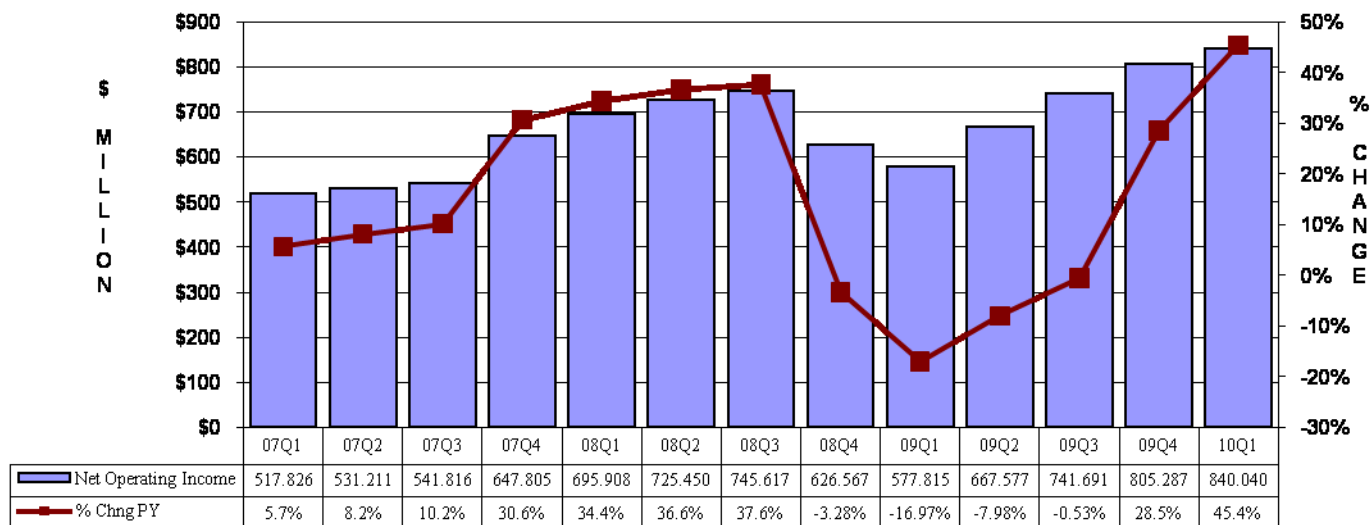
United States Consumer Price Index and Produce Price Index change from previous year (Overall vs. Hospital)



Net Operating Income

During the four quarters ended March 31, 2010 net operating income equaled \$840 million, which was up 45.4% from the year ago level. This is the highest rate of growth since the year ending December 31, 2005. Net operating income is volatile due to the large dollars that are involved in the calculation. A small change in the ratio of operating income, which grew 8.04% and operating expense, which grew only 5.14%, caused the 45.4% increase in net operating income. Net operating income includes other operating income.

Net Operating Income

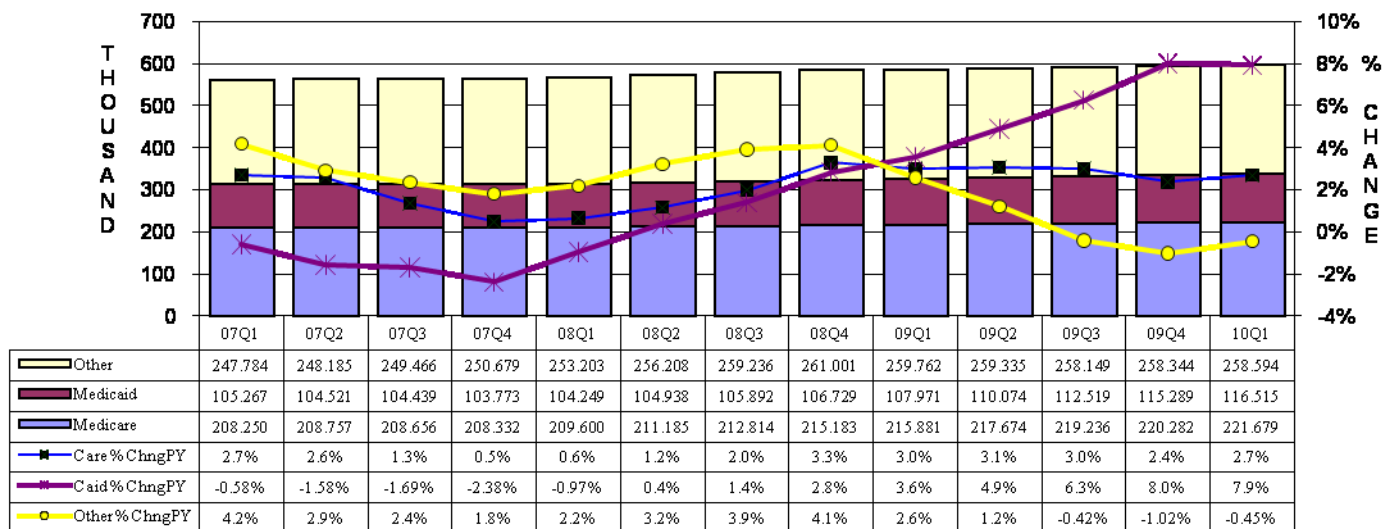


UTILIZATION INDICATORS

Discharges

Discharges and patient days are the primary indicators of inpatient activity. Discharges continued to grow slowly, reaching 596,788 discharges during the four quarters ending March 31, 10. This was a gain of 13,174 discharges, or 2.26%, over the corresponding 2009 period. Medicaid discharges increased 7.9%, while Medicare discharges increased 2.7% and Other discharges decreased by 0.45%.

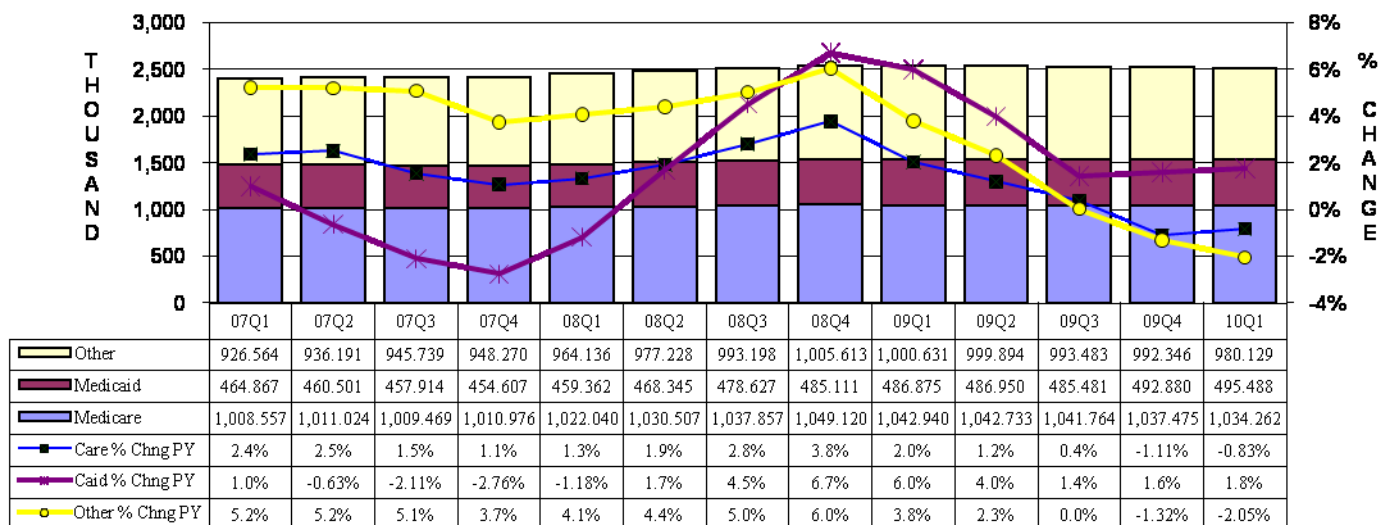
Discharges by Payer



Patient Days

Patient days declined modestly, reaching 2,509,879 during the four quarters ending March 31, 2010. This was a decrease of 20,567 patient days, or 0.81%, from the corresponding year ago period. Medicare days decreased 0.83%, Medicaid days increased 1.8% and Other decreased by 2.05%.

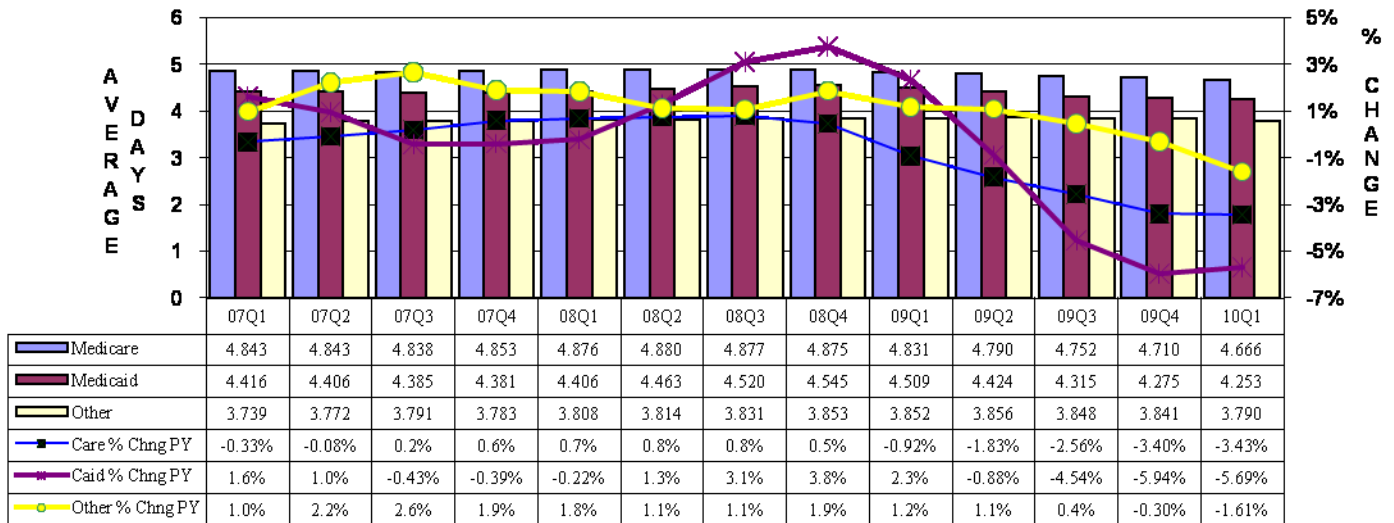
Patient Days by Payer



Length of Stay

Since the statewide discharges increased during the four quarters ending March 31, 2010, while patient days declined, statewide average length of stay decreased slightly to 4.21 days, or 3.0%. During the four quarters ended March 31, 2010, the average length of stay has decreased by 0.13 days from the previous period ending March 31, 2009. In the latest period, Medicare average length of stay was 4.67, Medicaid was 4.25, and other was 3.79. Medicare ALOS was 9.7% higher than Medicaid and 23.1% higher than Other Payer.

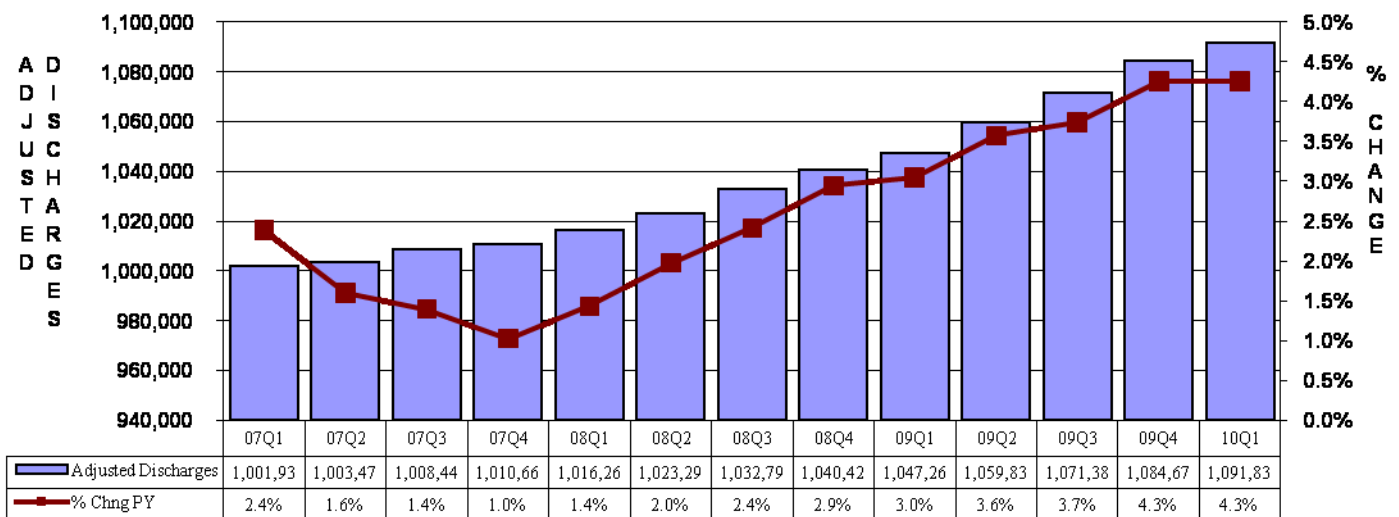
Length of Stay by Payer



Adjusted Discharges

Adjusted discharges reached 1,091,839 in the four-quarter period ended March 31, 2010. This was an increase of 44,579 adjusted discharges, or 4.26%, from the four-quarter period ended March 31, 2009. Adjusted discharges were created as a proxy for total hospital volume since discharges only count inpatients. Adjusted discharges, within the quarterly system, are calculated by increasing discharges by the percent of inpatient revenue to total revenue.

Adjusted Discharges

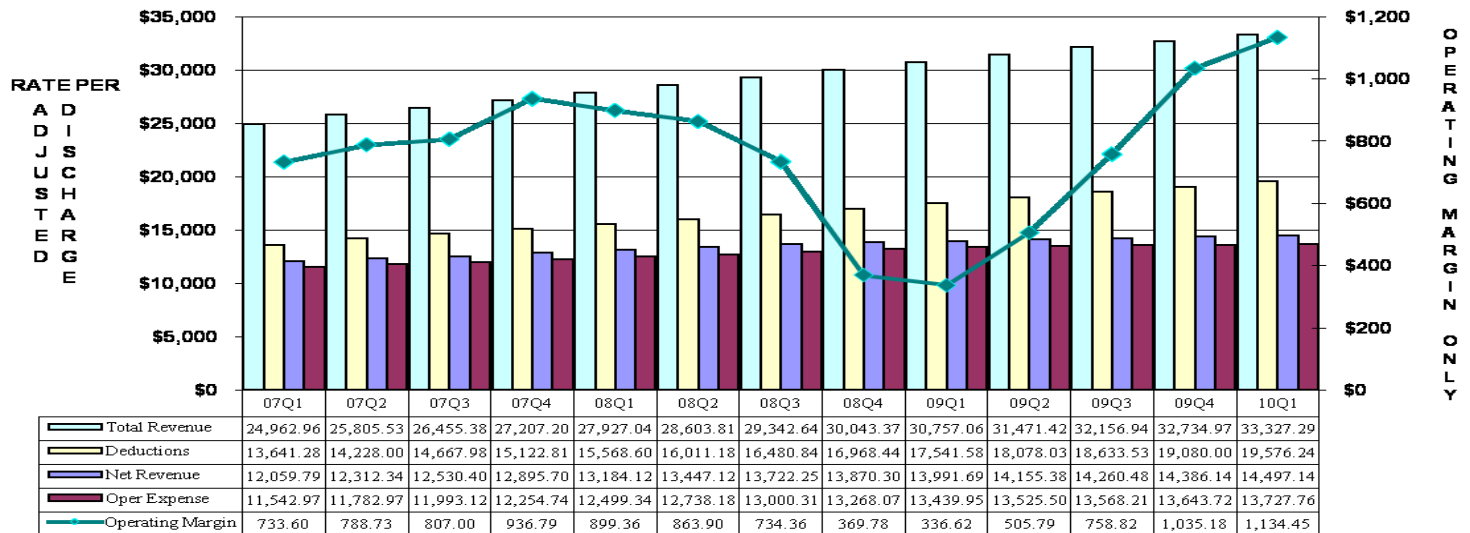


OPERATING INDICATORS

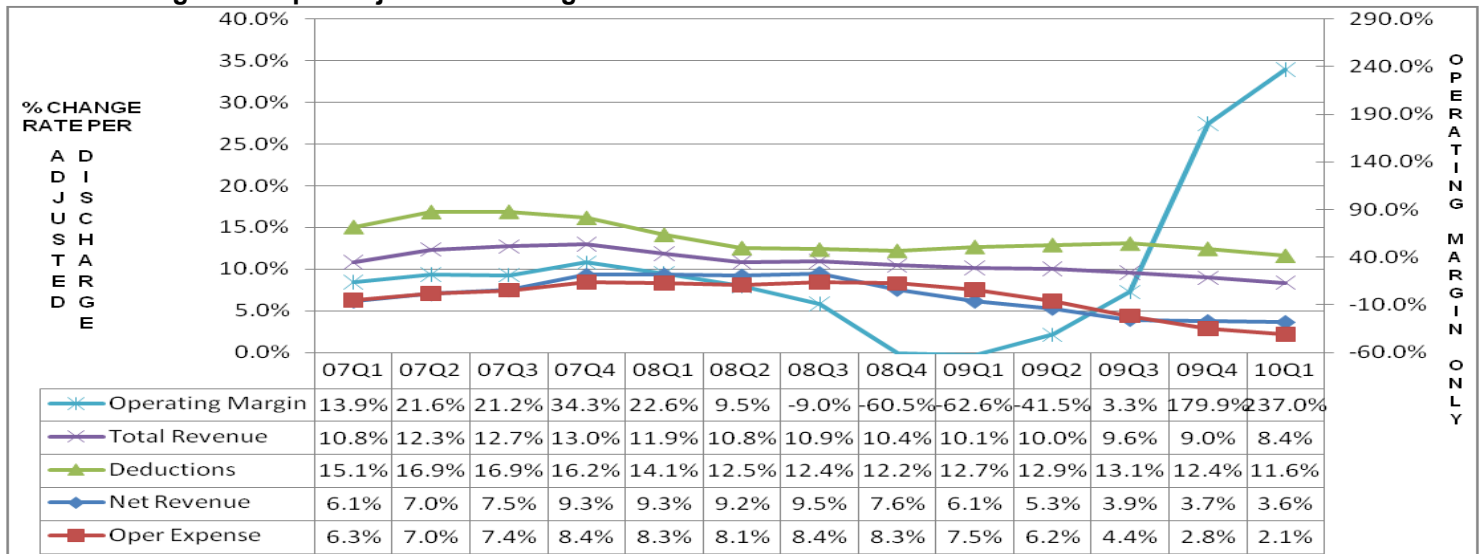
Rates per Adjusted Discharge

When the total dollar amounts for various categories are divided by the adjusted discharge count, the result is an average rate per adjusted discharge. This formula removes volume fluctuation from the review and makes it easier to look at other factors. Total or billed revenue is becoming less relevant each year, as it is now more than twice the actual dollar amount collected. Of note this quarter, while total revenue, net revenue, deductions and operating expense each grew between 5.14% and 15.82% over the previous twelve months, operating margin per adjusted discharge increased a dramatic 237% above the previous year's value. This increase is the largest in recent years.

Rate per Adjusted Discharge



Percent Change - Rate per Adjusted Discharge



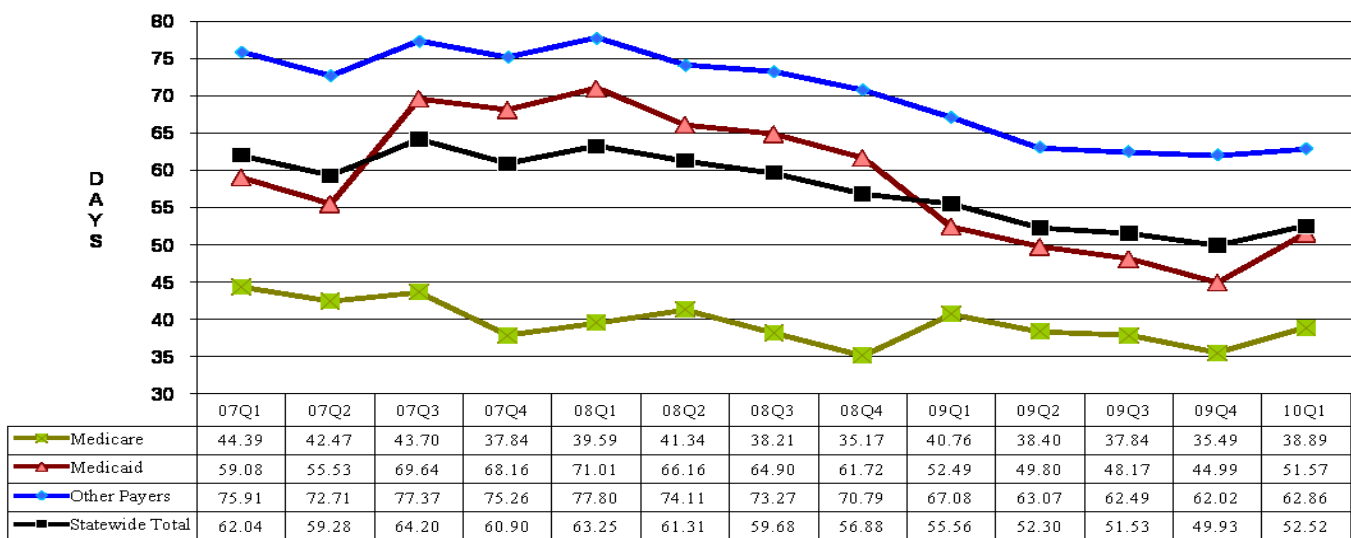
FINANCIAL RATIOS

The relationships between financial indicators are reflected by financial ratios. The financial ratios selected for this report are not all encompassing, but represent financial indicators that can be readily calculated from the data available through the quarterly reporting process as currently designed without requesting supplemental data from the reporting hospitals.

Days in Accounts Receivable

Accounts receivable is the largest item in the current assets portion of the balance sheet for most hospitals. Days in accounts receivable is a measure of how "current" this asset is. In this report days in accounts receivable is calculated on an annual gross basis. Shorter days or smaller numbers are more desirable. On a statewide basis, accounts receivable averaged 52.52 days for the four-quarter period ending March 31, 2010. This was a decrease of 3 days, or 5.46%, from the corresponding year earlier period. Medicare accounts receivable decreased by 1.9 days, or 4.61%, to 38.9 days. Accounts receivable for Medicaid decreased by 0.9 days, or 1.75%, to 51.6 days. A decrease of 4.2 days, or 6.28%, to an average of 62.9 days was also noted for the other payer groups.

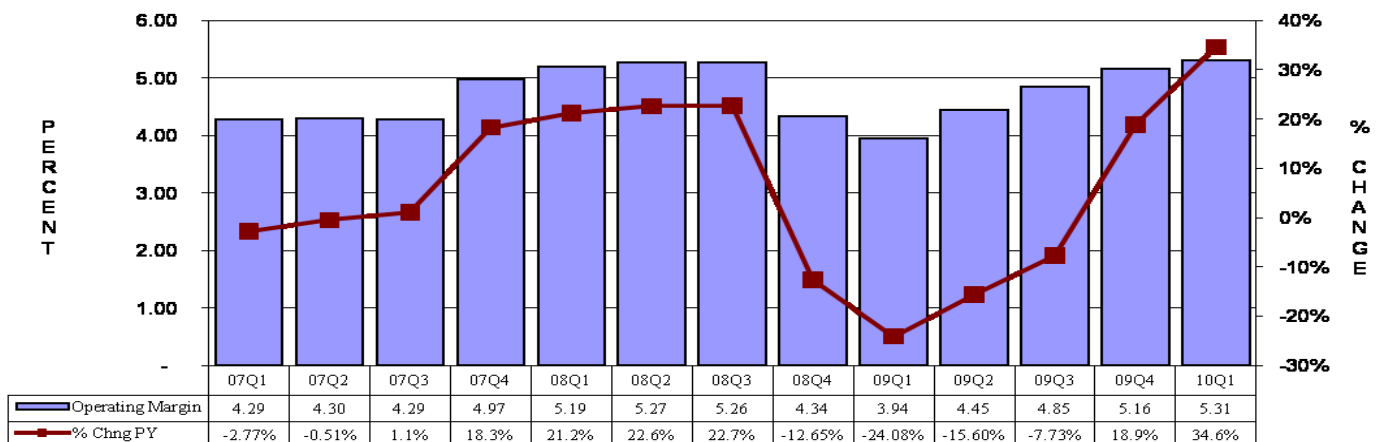
Days in Accounts Receivable by Payer



Operating Margin

During the twelve-month period ended March 31, 2010, operating margin increased to 5.31%, which was 34.58% above the year earlier level. The current period is showing significant improvement over the declines shown in 2009 and has reached its highest level in recent years. Operating margin includes patient revenue and other operating revenue.

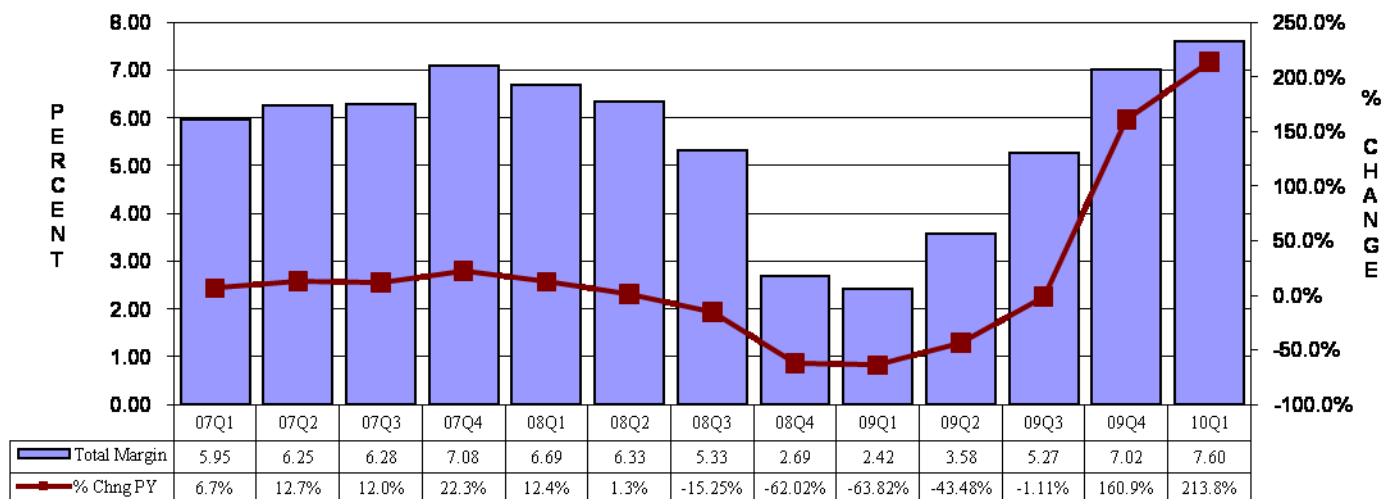
Operating Margin



Total Margin

During the twelve-month period ending March 31, 2010 total margin increased to 7.60%, which was 213.8% above the year earlier level. This is the second increase after five consecutive declines. Total margin includes operating margin plus extraordinary items, federal income taxes and non-operating income.

Total Margin



Deductible Proportion

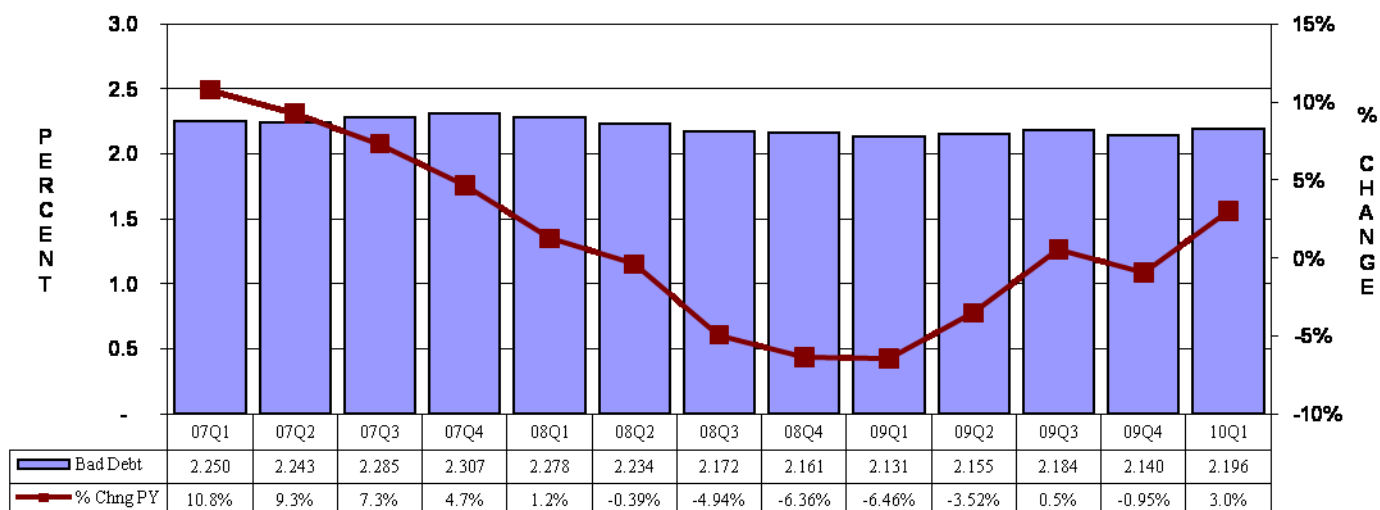
Uncompensated Care Proportion

The bad debt proportion, charity proportion, and total uncompensated care proportion, compare bad debt expense, charity care and total uncompensated care to total patient service revenue. The total uncompensated care proportion was 4.75%, which was an increase of 8.92% over the previous year.

Bad Debt

In the four quarter period ended March 31, 2010, the bad debt proportion reached 2.2%, which was an increase of 3.0% over the previous year, although the level is still below the pre third quarter 2008 levels.

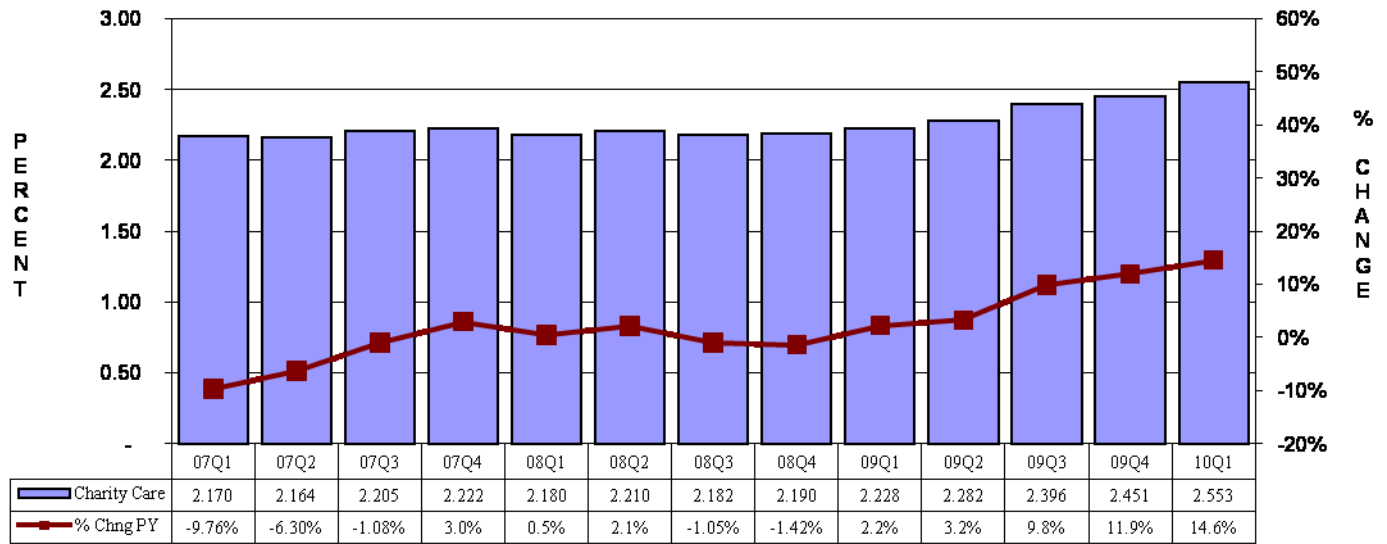
Bad Debt as a Percent of Total Revenue



Charity Care

The charity care proportion reached 2.55%, which was an increase of 14.6% over the previous year.

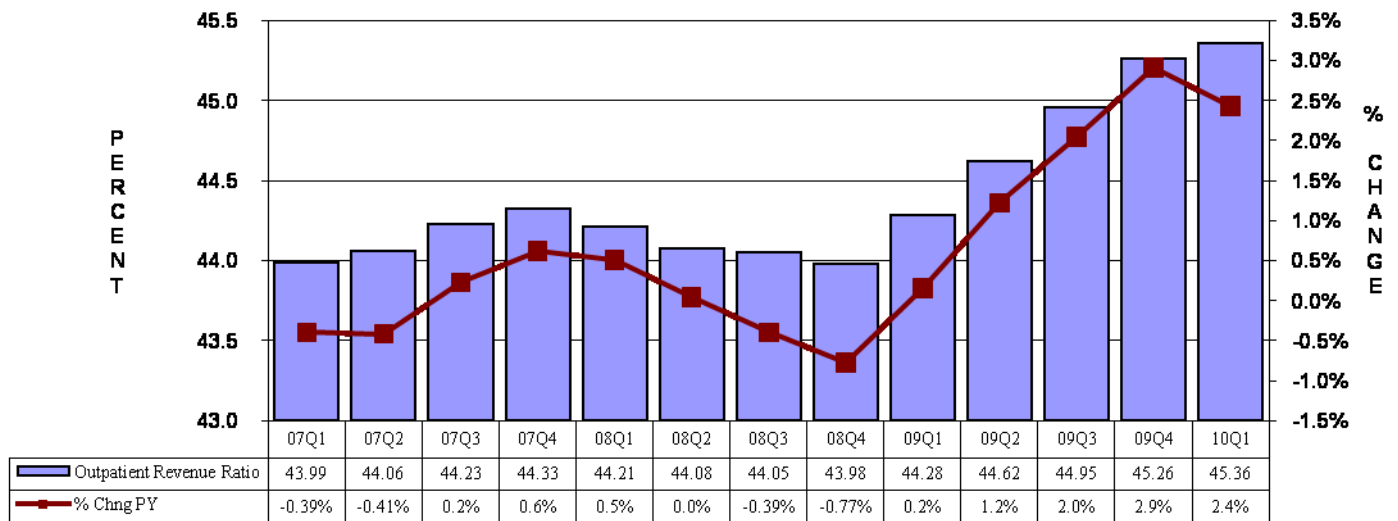
Charity Care as a Percent of Total Revenue



Inpatient and Outpatient Revenue

The outpatient revenue percentage is a way of looking at the relationship between inpatient and outpatient revenue. It is a rough indicator of the change in treatment locations. Between the annual periods, ended March 31, 2009 and March 31, 2010 the outpatient revenue percentage increased from 44.28% to 45.36%, or 2.4%. As hospitals moved procedures from inpatient to outpatient setting over the years, the ratio has gone up dramatically. In 1987, the ratio was 24.2%. Recently the ratio has been between 43 and 45.

Outpatient Revenue as a percent of Total Revenue

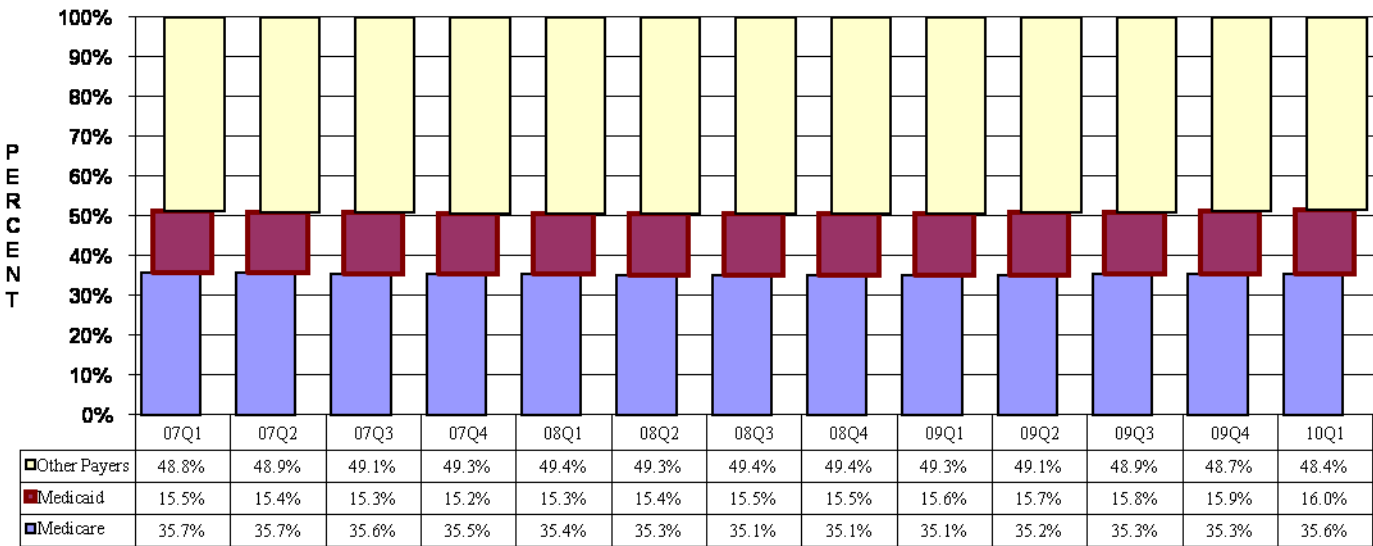


Medicare, Medicaid and Other Revenue

The Medicare billed revenue percentage and the Medicaid billed revenue percentage indicate the proportion of total hospital business that these programs represent. In the four-quarter period ended March 31, 2010 the Medicare percentage was 35.6%, an increase of 1.20% from the same period in 2009. The long-term trend it seems is that Medicaid is relatively steady around 15.5% while other seems to be slowing losing percentage points to Medicare. With 51.6% of total patient service revenue, the Medicare and Medicaid programs have a major influence on the financial health of hospitals. Over the three-year period depicted in

the graph below, the other payer portion has fluctuated within a tight band between 48.4% and 49.5%. The current value for other payer is 48.4%.

Revenue proportion by Payer



HOSPITAL PERFORMANCE STATEWIDE	12 Mo. Ended March 31, 2009	12 Mo. Ended March 31, 2010	Total Change	Percent Change
Total Patient Revenue				
Inpatient	17,950,251,695	19,889,327,163	1,939,075,468	10.80%
Outpatient	14,263,630,171	16,504,643,021	2,241,012,850	15.71%
Total	32,213,881,866	36,393,970,184	4,180,088,318	12.98%
Medicare	11,320,470,022	12,942,157,825	1,621,687,803	14.33%
Medicaid	5,018,892,371	5,839,394,473	820,502,102	16.35%
Other	15,874,519,473	17,612,417,886	1,737,898,413	10.95%
Deductions From Revenue				
Contractual Adjustments				
Medicare	6,960,576,440	8,181,666,081	1,221,089,641	17.54%
Medicaid	3,241,375,872	3,931,177,500	689,801,628	21.28%
Other	7,450,830,379	8,332,290,757	881,460,378	11.83%
Total	17,652,782,691	20,445,134,338	2,792,351,647	15.82%
Charity	717,810,002	928,963,225	211,153,223	29.42%
Total	18,370,592,693	21,374,097,563	3,003,504,870	16.35%
Uncompensated Care				
Bad Debt	686,485,672	798,987,213	112,501,541	16.39%
Charity	717,810,002	928,963,225	211,153,223	29.42%
Total	1,404,295,674	1,727,950,438	323,654,764	23.05%
Net Patient Revenue				
Medicare	4,359,893,582	4,760,491,744	400,598,162	9.19%
Medicaid	1,777,516,499	1,908,216,973	130,700,474	7.35%
Other	8,423,689,094	9,280,127,129	856,438,035	10.17%
Total	13,843,289,173	15,019,872,621	1,176,583,448	8.50%
Other Operating Revenue	812,897,753	814,601,682	1,703,929	0.21%
Total Operating Revenue	14,656,186,926	15,834,474,303	1,178,287,377	8.04%
Total Operating Expenses	14,075,119,576	14,988,499,749	913,380,173	6.49%
Net Operating Income	581,067,350	845,974,554	264,907,204	45.59%
Non-Operating Income	(262,250,062)	355,247,255	617,497,317	-235.46%
Tax Revenue	33,715,211	37,417,514	3,702,303	10.98%
Net Total Income	352,532,499	1,238,639,323	886,106,824	251.35%
Gross Accounts Receivable				
Medicare	1,264,286,387	1,378,811,000	114,524,613	9.06%
Medicaid	721,800,012	825,108,462	103,308,450	14.31%
Other	2,916,716,332	3,032,381,334	115,665,002	3.97%
Total	4,902,802,731	5,236,300,796	333,498,065	6.80%
Days in Accounts Receivable				
Medicare	40.8	38.9	(1.9)	-4.61%
Medicaid	52.5	51.6	(0.9)	-1.75%
Other Payers	67.1	62.9	(4.2)	-6.28%
Statewide Total	55.6	52.5	(3.0)	-5.46%
Utilization				
Discharges	583,614	596,788	13,174	2.26%
Patient Days	2,530,446	2,509,879	(20,567)	-0.81%
Length of Stay	4.34	4.21	(0.13)	-3.00%
Adjusted Discharges	1,047,260	1,091,839	44,579	4.26%
Rates per Adjusted Discharge				
Total Revenue	30,760.17	33,332.73	2,572.56	8.36%
Deductions	17,541.58	19,576.24	2,034.65	11.60%
Net Revenue	13,994.80	14,502.57	507.77	3.63%
Operating Expense	13,439.95	13,727.76	287.80	2.14%
Net Margin	336.62	1,134.45	797.83	237.01%
Financial Ratios				
Operating Margin	3.94	5.31	1.36	34.58%
Total Margin	2.42	7.60	5.18	213.83%
Deductible Proportion	57.03	58.74	1.71	2.99%
Contractual Proportion - Total	54.80	56.19	1.38	2.52%
Contractual Proportion - Medicare	61.49	63.22	1.73	2.81%
Contractual Proportion - Medicaid	64.58	67.32	2.74	4.24%
Contractual Proportion - Other	46.95	47.33	0.38	0.81%
Bad Debt Proportion	2.13	2.20	0.06	3.03%
Charity Proportion	2.23	2.55	0.32	14.56%
Uncompensated Care Proportion	4.36	4.75	0.39	8.92%
Total Revenue/Inpatient Revenue	1.79	1.83	0.04	1.96%
Outpatient Revenue Percent	44.28	45.36	1.07	2.43%
Medicare Revenue Percent	35.15	35.57	0.42	1.20%
Medicaid Revenue Percent	15.58	16.05	0.47	2.99%

Notes:

Information

For more detailed information you can visit the Department of Health - Hospital and Patient Data web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for a large variety of hospital data and reports. Included are hospital financial data and reports, hospital discharge data and reports, and Charity Care reports. Also included are Directory of Hospitals, CHARS Procedure Manual, Accounting and Reporting Manual for Hospitals, Charity Care reports and past hospTRENDS.

Your comments and suggestions for improvement would be greatly appreciated. Please let us know what you like or do not like about the content and presentation of the hospTRENDS report. Contact information is on the last page.

Background

All licensed hospitals in the State of Washington submit summary financial and utilization data to the Department of Health following each calendar quarter. Reported data are edited, summarized and analyzed by Hospital and Patient Data Systems staff. Specific data elements are defined in the Department's Accounting and Reporting Manual for Hospitals. Utilizing these data, various financial and utilization rates and ratios are calculated to enhance the description of the financial condition of hospitals in the state. The purpose of this series of reports is to provide information describing emerging hospital utilization and financial trends to all concerned parties.

Rather than focusing on individual calendar quarters, the data in this report are aggregated into twelve-month periods consisting of four calendar quarters each. This aggregation reduces the impact of seasonal fluctuations, which could distort actual trends occurring within the hospital industry.

The period covered by this report includes the last three quarters of 2009 and the first quarter of 2010. However, this preview is subject to change. The quarterly reports submitted by hospitals contain interim data that have not yet been subjected to audit review. In addition, not all hospitals submit data by the required dates. Future adjustments and/or revisions because of both the hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. These future revisions will be reflected in the hospital's year-end reports. The year-end reports not only reflect audit adjustments but also provide substantially greater detail, which allows analysis of the information provided in greater depth.

hospTRENDS

Washington State

Community Hospital Financial and Utilization Trend Newsletter

Quarter Ended March 31, 2010

For additional information, comments, and suggestions,
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